

October 18, 1978

LETTER 741

Oct. 6, DJIA 880.02; PTI 956; A-D Ratio -16.69

Oct.13, DJIA 897.09; PTI 966(new high); A-D Ratio -16.54

STOCKS AND THE MARKET: People will accept any amount of hardship, boredom, pain, inconvenience—rather than face the *unknown*. I'll never forget the time when, in 1961, I had packed all my belongings and was standing in front of my NY apartment house, waiting for the moving van to arrive and move us to California. Many of my neighbors stopped by to chat, and the most frequent remark was, "Gad, are you lucky to be getting out of here and going to the Coast!" My consistent answer was, "I'm not lucky. I just made up my mind to do it. You can do the same thing if you want to." And the answers poured fourth: "Oh, I couldn't do that. I don't know anyone there." Or "I couldn't find a job out there," or "I've lived here too long to move." Or "My kids live here, and I couldn't start all over again."

But the fact is that people can grow accustomed to anything; to the slums, to the jungles, to cold water flats, to anything you can name, and when you have grown accustomed to certain conditions, you **KNOW WHAT TO EXPECT**. And nine out of ten people want to know what to expect. They will not live with the stress and excitement of constantly changing conditions.

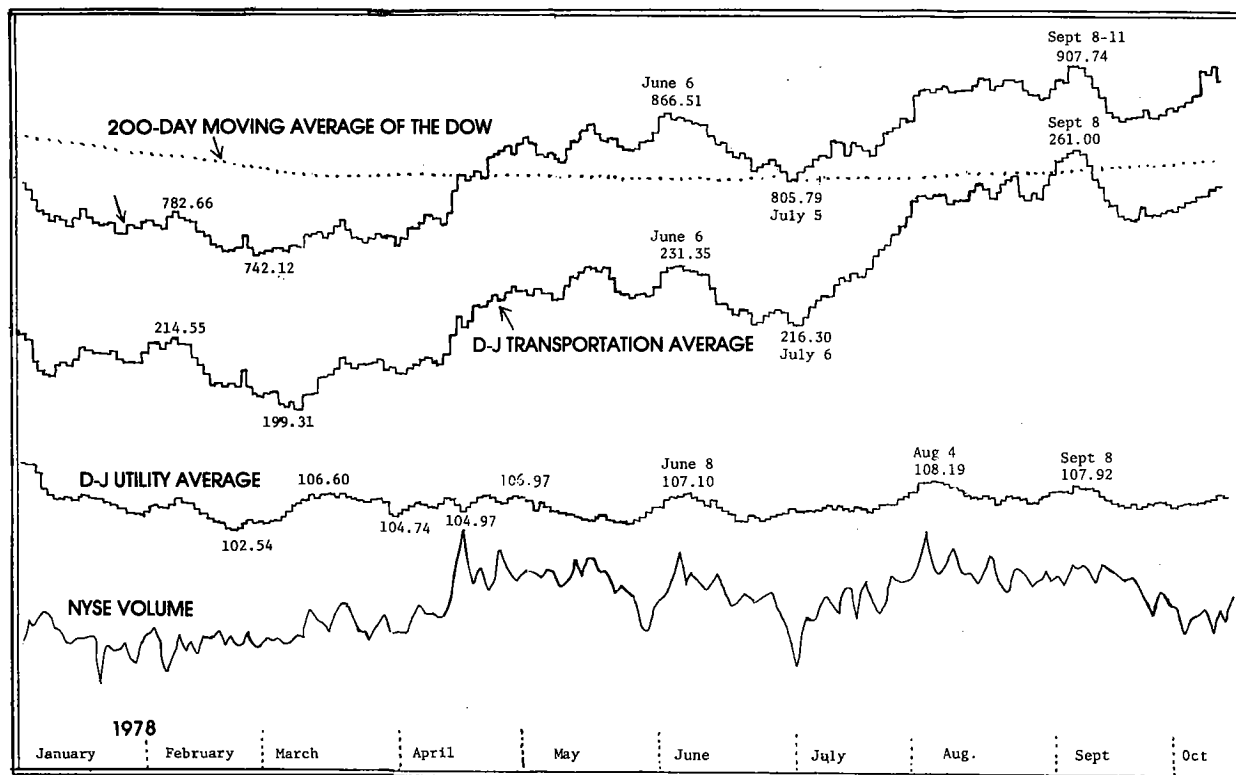
Fritz Perls, the famous founder of Gestalt therapy, once said that there is only one correct reaction, and that is a reaction to the **situation**. Situations change constantly, but most people prefer to avoid or ignore change. And that is why life is so dull for most people. They react to their preconceived ideas about a situation—not to the actual situation. Thus, most people turn life into deadness, they turn truth into half-truth, they turn light into twilight, they turn excitement into boredom.

The next time you engage in a conversation, stop yourself (mentally) and determine whether you're reacting to what is really happening or whether you are telling a story or dealing with something that has already happened (deadness). Then try to deal with what **IS HAPPENING**, and see the exciting (but perhaps dangerous) truth emerge.

Yet here is the fantastic part of it: I've never yet seen the truth actually hurt anybody or anything. I've only seen the truth (when someone holds to it) exert a curative, healthful or positive effect. That thesis is the number one rule in my own living, and I find myself constantly wrestling with that same thesis, "Tell the truth, cut out the deadness, cut out the nonsense, cut out the stories, the triteness, the apologies, the excuses."

Does this apply to the market? It applies 100%. In the market (as everywhere else), people hate surprises; they hate uncertainty. And they avoid reacting to the actual situation. In fact, I would say that the hardest single thing to do when dealing with markets is to act coldly and unemotionally to the situation at all times. We want the market to go up, we have already decided that it should go up, and when it declines instead, we are paralyzed because that situation does not fit our comfortable preconceived notions. Result: losses.

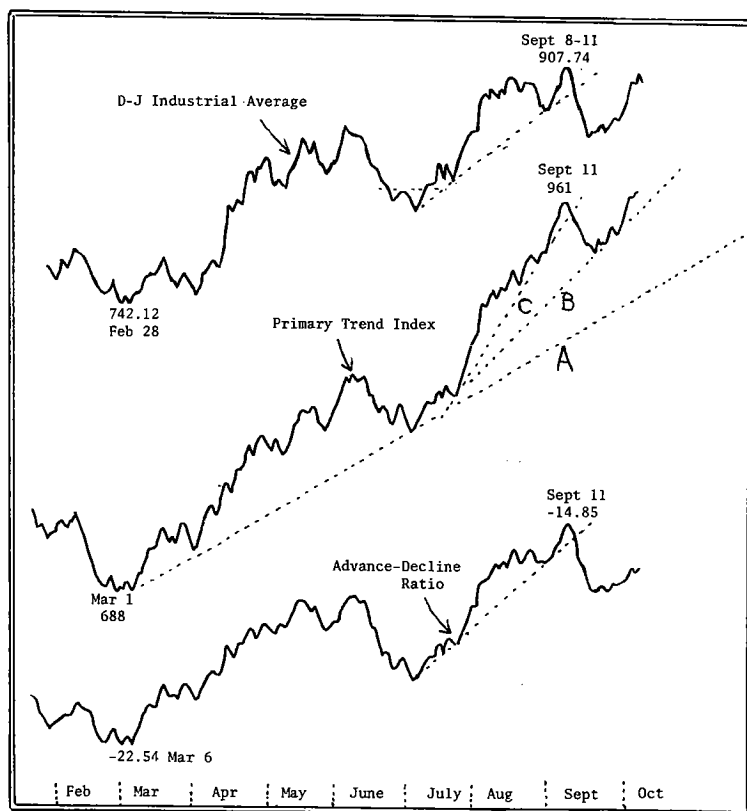
All right, let's put this into the context of the current market. Study the page 1 chart of the Averages. On September 8 Industrials recorded a high of 907.74 while on the same day Transports recorded a high of 261.49. A sharp decline followed in which Industrials touched a low of 857.16 (Sept. 20) and Transports



hit a low of 241.58 (Sept. 22). From there a rally occurred, but volume dropped very noticeably on the rally.

This decline in volume made me sit up and take notice. There is something very strange in the sudden dearth of upside volume; it was as if the speculative excitement had suddenly evaporated. Technically, I believe that what has happened is that the rally was generated by a decline in selling pressure, rather than any real increase in buying power. Such rallies often represent the "last push" prior to trouble. The reason is that no major advance can be sustained via declining selling—persistent advances require a steadily rising buying interest.

The market story should be clarified soon—at least from a Dow Theory standpoint. If **both** Averages can rally above their September 8 highs, then the advance will have a new lease on life, and I would expect buying to come in and propel the market further. However, if the two Averages now turn down and violate their September lows (Industrials below 857.16 and Transports below 241.58) we will have a particularly bearish signal. And I say "particularly bearish" in view of the drop-off in volume during the most recent rise and because of the sharp decline in daily new highs and also because of the sluggishness of the advance-decline ratio.



The chart of the Dow, the Primary Trend Index (PTI) and the A-D ratio is of particular interest at this time. On October 9, the PTI (which is an amalgam of 8 averages and indices) recorded a new 1977-78 high of 942. The upside "vacuum" created by this new high has pulled the Dow higher. By October 11, the Dow had rallied within a few points of its October 8 peak of 907.74. As stated in recent Letters, I have learned to respect the PTI—and I mean really respect its action and signals. I have drawn three trendlines under the PTI. Trendline A is the intermediate trendline, and as long as this trendline holds, I would say that the market uptrend is in force. Trendline B connects the July and September bottoms, and if this trend holds the market will

continue to be under UPSIDE pressure. Trendline C, a rather steep trendline, has already been violated, and this constituted the first hint of a potential top.

A striking feature of the current market is that the A-D ratio has lagged far behind the Dow during the latest rally. This is the first time since March that the majority of stocks, as represented by the A-D ratio, have fallen behind the Dow. Such action, in the past, has been a forerunner of trouble.

Turning to the page 1 chart, note that the D-J Transportation Average has also fallen behind on this rally, while the Utility Average is creeping higher but with little true conviction. A further laggard is my index of daily new highs on the NYSE. I plot the new highs in the form of a 5-day moving average, and the figures show a series of declining peaks in the 5-day MA. On August 3, 1978 the new high index stood at a peak of 242. On September 12, the index recorded a lower peak of 185. The latest peak, October 12, saw only 57 new highs. Thus, the momentum of the market on this latest upswing has deteriorated dramatically.

Aside from the PTI, the strongest indicator I have is the cumulative index of most-active stocks on the NYSE. This index has been pushing steadily higher ever since the February 28 low. It is usually wise to watch the most persistent indices during any extended advance (or decline). When those indices reverse, it is safe to assume that the turn has come. As of now, despite the lagging A-D ratio and Transportation Average, the PTI and the cumulative most-active stock index have not reversed. Short sellers will "sweat it out" until they do turn down.

It is clear to veteran observers that this market has been doing something "very unorthodox." It has been climbing up against 8 boosts in the discount rate, against a negative net reserve situation in the banking system, and against steadily rising interest rates. How can this happen? The answer, I believe, is that investors have been buying stocks as an alternative to all forms of paper liabilities, and it is clear that the dollar (which is a liability of the US Government) is considered to be just as much as a debt instrument as are long-term bonds.

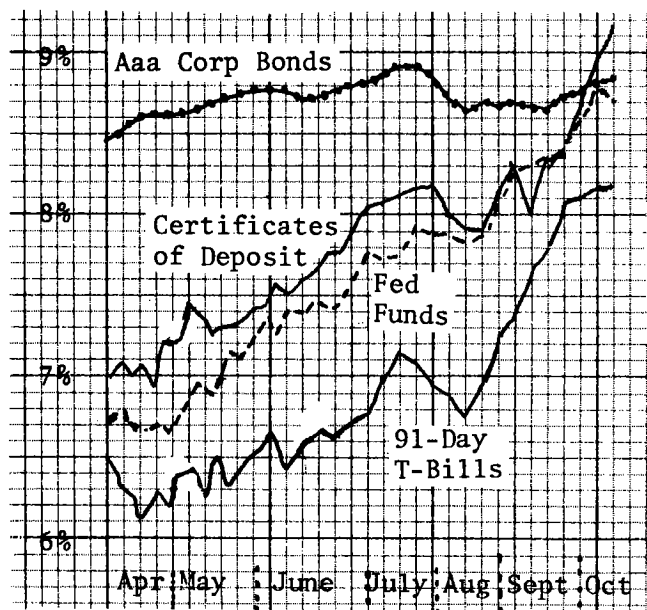
In other words, fear of inflation and fear of a decline in the value of paper liabilities is driving people into the stock market. Thus, despite rising interest rates investors are willing to "chance it" in the stock market on the thesis that anything is better than US paper at this time. Note: investors obviously do not prefer the stock market to real money, because real money (gold) has been outperforming the stock market on a relative strength basis.

BONDS, MONEY, RATES: Friday, the thirteenth arrives, the Dodgers lose in New York, the stock market waffles aimlessly, money rates ease slightly, and *Fortune* magazine arrives with an article entitled, "Why the Fed is a Flop at Managing Money." The *Wall Street Journal* today carries numerous quotes from analysts who state that the Fed is letting the money supply run off into space, and I wonder myself how long the Fed can sit on its hands.

After the market close comes dramatic news. The Fed has boosted the discount rate a full $\frac{1}{2}\%$ to $8\frac{1}{2}\%$, its ninth boost in a row, and this time to the highest level in US history. The Fed has surprised many people, but in reality the Fed is still following the rest of the market and more specifically the Fed is following the prime rate which a day before had jumped to 10%. Nevertheless, the $8\frac{1}{2}\%$ discount rate represents an historic high. I wonder, "Is the Fed telling the world that it's 'mad as hell and it's not going to take it anymore!'"? Only time will tell.

I remember the words of the late, great Hamilton Bolton (founder of the *Bank Credit Analyst*): "The market can adjust to any level of interest rates, but it cannot adjust to steadily climbing interest rates."

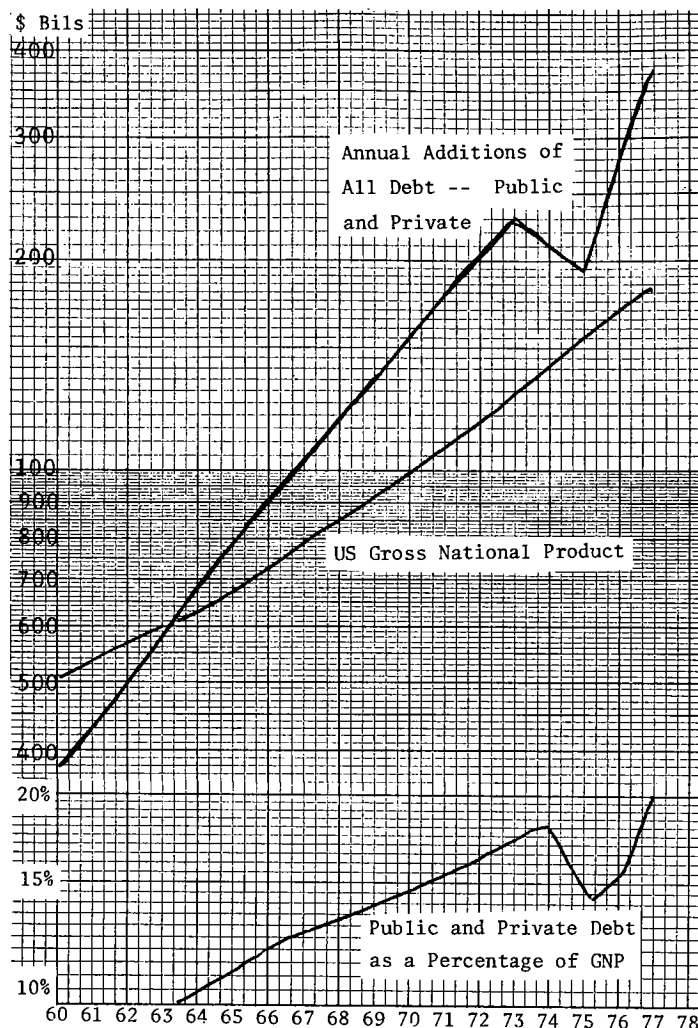
My weekly chart of the money rates has been doing a good job of telling the story. The short term instruments have been climbing precipitously. A few weeks ago the Fed Funds and C/D yields actually pushed above the yield level on Aaa corporate bonds (see chart). When that happens, we're seeing the beginning of "the big squeeze" in the money markets.



I've been watching the long-term Treasury bonds with interest. Most are now in the 8.5% to 8.6% yield zone, but they have been resisting a plunge to new record lows. The bellwether 8's of 1996 got down to 93 bid, then rallied. Watch this bond. Any decisive break below 93 will mean a new high level of yields on the long-term Treasuries. If the long-term Treasuries go to 8.8% - 9% yield, they will be awfully hard to resist, and at such levels I personally will start nibbling at them.

My thoughts turn to the Fed again. The fact is that the Fed has been playing a most dangerous game. Over the past six months the M-1 money supply has risen at a record clip, a rate that will bring on galloping inflation in time. I've stated before that this nation has run up its debt structure to the point where it must "inflate or die." Any major fall-off in debt production and monetization will produce a depression. And avoidance of that depression now demands (and this is tragic) ever-increasing accumulations of debt. Consciously or unconsciously, the Fed must know this, and this is the reason why they are injecting vast amounts of new green paper into the already watery veins of the US economy—even while they are following interest rates up with higher Fed funds and a higher discount rate.

For the past year I've wracked my brains for a way of getting this whole picture over to subscribers on a single chart. Over the weekend, I drew up this graph, and maybe it will do the trick. Here we see the annual additions of new debt, both public and private (note, these are just *single year* additions, not year plus year accumulations!). This chart is drawn to ratio scale,



so we can see that the debt accumulations are increasing at a steady rising rate. Note that the rate of debt accumulation is moving up at a faster rate than the Gross National Product of the US! The chart indicates that it is taking more and more debt accumulation to produce a rising GNP.

The lower line on the graph is truly the "bottom line." Here we see that the annual debt accumulations are assuming a larger and larger *percentage* of the GNP. If this keeps up, then ultimately the annual new accumulations of debt would equal the whole GNP of the nation. At that point (assuming the country had not collapsed) it would take perhaps a trillion dollars in new debt in a single year to produce any rise in GNP (and of course, interest rates under such an economy would be double or triple what they are today)!

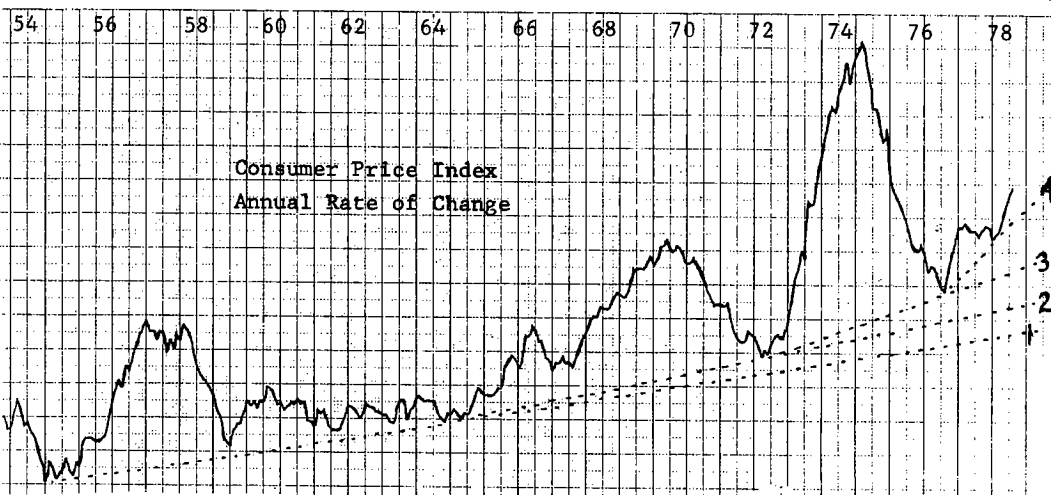
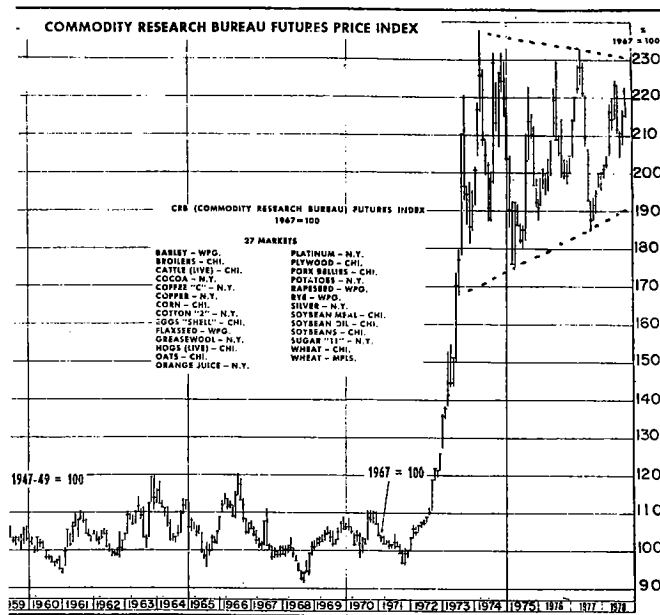
Thus, the chart tells us that we are riding on a path that will lead to disaster. Conclusion—the nation will shortly have to choose between hyper-inflation or depression. And unfortunately, there isn't a man on the face of the earth who can tell us which one the Government will initially choose.

That's the reason I want my subscribers to **stay liquid** with part of our assets in true, timeless money—gold, and part in legal tender which means dollars.

Question: If the market crashed and the nation sunk into deflation and depression, couldn't gold take a nose-dive?

Answer: Yes, particularly if it appeared that the dollar could be saved (in which case, dollars during a deflation would be worth more). But if it looked as if the dollar could not support the weight of trillions in US debt, then gold would go up and the dollar would collapse. Again I say that no man knows what would happen if the stock market keeled over, if the economy started to buckle, and if the present monetary and banking system was put to the test. If I knew the answer to that one, then I would be able to say to my subscribers, "All right, let's ride it out with all our assets in gold," or "Let's stay with our assets 100% in Treasury bills and collect the interest." But unfortunately, I don't know the answer. Nevertheless, I can present you with the alternatives, and if you know the alternatives you are well ahead of the game. So here's the picture—inflation is still rampaging, and it looks as if it's going to get worse. The Fed is reluctant to stop it. They haven't raised bank margins, they haven't raised stock margins, they haven't led with Fed Funds or the discount rate. Wages are going up, people are saying "Damn the interest rates, I'll buy it." The thrift institutions have not been losing money because the new "six month certificates" allow them to compete with Government paper. Thus, paper is available for houses and cars, regardless of interest costs.

BUT—at some point interest rates are going to go up to the roof. No stock market can withstand steadily rising interest rates. At that point the cracks in the economic structure will become



glaring holes. Then, the problems which have been swept under the rug will emerge for all to see.

Last month the mutual funds lost more in redemptions than in any single previous month on record. The public is selling their stocks and moving into houses and "things." The public is playing the inflation game. The market has been playing the gambling game. And seasoned investors know that no good can come from either source.

So I say, **gold and T-bills and patience.** My subscribers and I are playing the survival game. And to survive the next few years, we're going to need all the nerve, ability and patience we can muster.

COMMODITIES: I am particularly interested in the whole commodity spectrum at this time, because commodities are highly sensitive to inflation. I don't want to go into individual commodities, but I will say that there has been a slow "creeping up" in many of the individual items, and the big question is—"Could this slow creep end up with an explosion on the upside?"

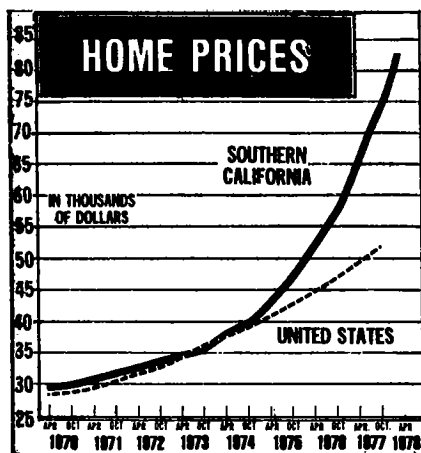
The accompanying chart is probably the most widely watched commodity average in the nation, it is the CRB Commodity Futures Price Index. Note that the index has formed an immense triangle following its 1973-74 rise. This triangle is made up of 11 rallies and declines, with the 11th rally still underway. The breakout point would be "above 230" on the index. If that happens, I would think that we would be in for an across-the-board inflationary boom (probably short-lived) in the whole commodity spectrum.

While on the subject of commodities and inflation, I am including a long-term chart that not too many people have occasion to see (chart courtesy of my friend Robert Powers of San Diego). This is the annual *rate of change* of the Consumer's Price Index and as such it is an excellent inflation indicator. Note that I have drawn four trendlines (each numbered) on the chart. Each of these trendlines (starting with 1954) is steeper than the last. The latest (No. 4) is short and starts from a high base. This "index" tends to point the direction of gold and commodities, and right now the direction is steeply up.

ODDS AND ENDS: The October 16 issue of *Business Week* carries a feature article entitled "The New Debt Economy". Don't miss this issue. Business Week at last goes into the nightmare of debt which now characterizes the US, and their treatment of the story (like mine) is scary. Don't miss this article!

Corporations are having difficulty in getting executives to move to Southern California. The reason is that housing costs here have

exploded into the great beyond. Last month the price of an average new house in San Diego rose to \$80,000 for the first time. With the new bank certificates (which pay 1/4% more than T-bills), the thrift institutions have avoided disintermediation. Thus, home buying goes on regardless of interest rates, because (1) the home buyers figure that home prices will go up forever, and (2) regardless of rate, the buyers can get the big loan for a new home. The result is that real estate has become the biggest balloon of



speculative insanity in the whole US economy. Normally, a house should sell at around 10 times what you can rent it for. Houses are now selling at around 40 times rent potential. Furthermore, people are borrowing on market appreciation on their homes. The real estate boom has become a dirigible!

MONTHLY SALES SOUTH AFRICAN KRUGERRAND

1977	
January	203,045
February	82,969
March	237,120
April	118,020
May	158,030
June	170,800
July	313,030
August	273,020
September	230,880
October	413,020
November	519,020
December	613,110
Total	3,331,344
1978	
January	669,030
February	564,020
March	435,560
April	435,430
May	368,050
Jan.-May	2,472,090

GOLD: In the last Letter, I updated (in Elliott Wave terms) my chart of gold. I think that the technical considerations regarding gold are now telling us a great deal about the coming scenario for the US economy and the markets. This is how I see events unfolding.

As I explained in the last report, gold (see page 7 chart) is now in its second major advancing wave from the 1976 bottom. The first rising wave took the form of a classic 1-2-3-4-5 and these sub-waves are numbered on the chart. The first wave ended at 152.20 on March 25, 1977. We then had a normal a-b-c correction which carried down to 138.40 on June 14, 1977. From here, the second major wave began its upward climb. As you see on the chart, sub-waves 1 through 4 have been completed. We are now in sub-wave 5. The 5th wave of any rising wave structure is usually the speculative wave, and that is why in the last Letter I stated that I thought the current rise in gold was close to becoming emotional and speculative.

Note that gold has been climbing higher within the channel formation as shown on the chart. The top of the channel at this time comes in at about 250 for gold, but with each passing week the channel top moves higher. If gold becomes speculative and emotional, I would expect it to push up to or even above the top of the channel (around the 250 area).

Here is the crucial part of my thesis. Interest rates are now rapidly climbing, inflation appears to be "unstoppable," business remains good and loan demand is powerful. Nevertheless, the persistent climb in interest rates will have an effect (probably

The Administration is not going to like this, but the sale of Krugerrands is soaring. As this breakdown shows, the January to May total sales of Krugerrands was 2.47 million. The January to May, 1977 sales of the Krugs was .798 million. Thus, sales of the Krugs in 1978 is running about triple the 1977 rate. Krugerrands are now consuming 25% of S. Africa's entire gold production. My bet is that they will take 50% of S. African production during 1979-80.

Odds are that a little-publicized bill (the House and the Senate each has a version) will pass, giving unlimited credits to China to borrow for the purpose of buying US commodities. The bill would allow exporters to borrow from the Commodity Credit Corp., which would in turn get the money from the Treasury, which would in turn borrow it or "finance" it. The implications of this bill on commodity prices can be summed up in one word—"inflationary."

Leonard Santow (J. Henry Schroder Bank and Trust) is considered to be one of the leading experts on Federal financing. In his latest report he estimates the 1977-78 Federal deficit at about \$49 to \$50 billion. Then he predicts that the current (1978-79) deficit will be even greater (contrary to official estimates)! Santow sees Government spending running \$5 billion over official forecasts and receipts running \$10 billion below official forecasts. He also estimates that the cost of servicing the Federal debt will go up at least \$9 billion! This last is what I have been warning about all along, namely that compounding interest rates on an expanding debt structure will destroy any financial entity in due time. The Carter economic policies are heading for disaster; it's not a matter of whether, it's a matter of when.

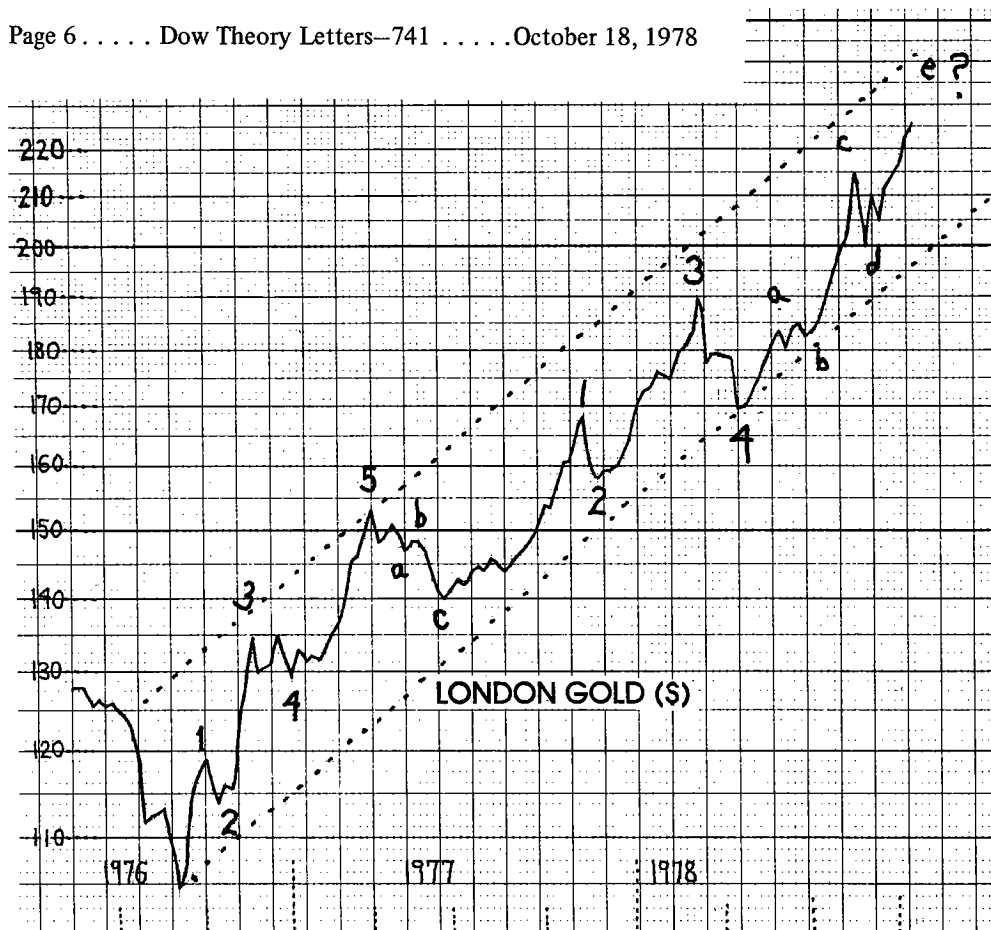
The Administration policy on Rhodesia is, to my mind, absolutely disgusting. Carter has sold Ian Smith down the river, refusing even to see him. He thus has written off all of white Rhodesia and is beckoning the black revolutionaries to march in and take over. Thus, Carter has sided with the potential "winners," rather than those who have justice on their side. Smith has offered full equality and a working settlement with Rhodesian blacks. Carter talks of fairness, but his stand on Rhodesia is beyond being unfair—in my mind it is pure evil. I firmly believe Carter will live to regret his Rhodesian stand.

a temporary effect) somewhere ahead. Within a few months (or perhaps in early 1979) as interest rates push upward, things are going to get wobbly. Business should slow a bit, the stock market should be heading down, and the economic statistics will turn from green to yellow. There will be widespread talk of a slump and a rise in unemployment.

Somewhere in that same area, I would expect gold to complete the 5th sub-wave of this second major wave up from the 1976 low. There will then be a correction in gold—a correction that will take gold back toward the lower channel line.

As fear of a slump intensifies, interest rates should come down some, business will soften, and the Administration will start shouting that the Fed must "do something" to keep America's prosperity in high gear. I doubt if the Administration will have to do much shouting, however, because the Fed will probably be pumping (money into the system) for all its worth without Administration prompting. Inflation could then be rampant.

And this is where I see the final, massive rise in interest rates coming, with all denominations (bills, C/D's, notes, Fed funds, bonds) posting new highs in yields. This juncture is where I also



believe we will see the third and final rising wave for gold. Since it will take a tremendous amount of monetization (pumping) by the Fed to effect any change in the 1979 slide, I would say that the third bull wave for gold will be the most rapid, the most violent and the most profitable of any of the moves since late-1976.

By the time the third bull wave for gold is over, I would expect gold to be in the 300-400 zone, I would expect interest rates to be at extraordinary highs (bonds will then be near a great base and buying area), and I would expect the stock market to be in shambles.

At any rate, this is my "peek at the future," based on a number of factors, but probably based more than anything else on the structure of the current bull market in gold.

Question: Russell, if what you say comes to pass, how do we handle our gold? I have a lot of gold in coin and bullion form. Should I sell my gold when the current 5th sub-wave appears to be topping out, or should I just ride through the correction?

Answer: I don't know how brilliant I will be in catching the ultimate top of this 5th sub-wave, but I will probably advocate selling some gold and taking some profits if and when gold looks as if it is topping. I would not fault long-term holders if they want to ride through any correction in the main trend, but personally, I will probably cut down on my own holdings of gold.

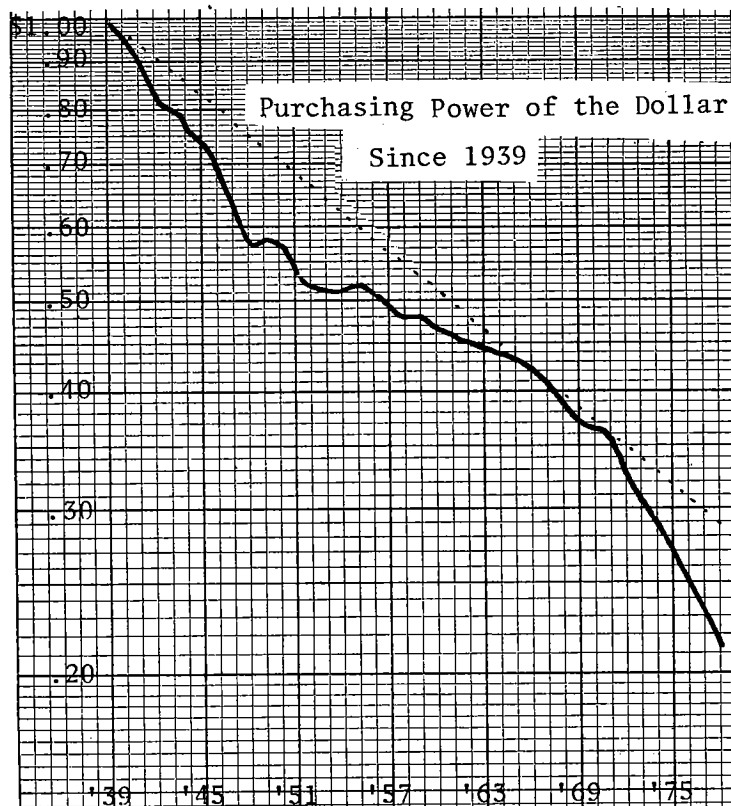
Question: Russell, if you're so hot on gold and cold on the dollar, why don't we just put all our assets into gold and sit?

Answer: First of all, in order to do well with any investment you have to have (1) confidence in your investment, (2) peace of mind with your position, (3) patience. I have utmost confidence in gold, so that is not a problem. But if I had ALL my assets in

gold, I would have no peace of mind. The reason is simple; all investments involve **TIMING**, and no timing technique is worth betting your entire holdings and assets on. I know many people who put all their eggs in one basket, but the wear and tear on their nerves was not worth the effort, even when they were successful. Confidence is a great thing to have when you are invested, but many's the man who was right, yet wiped out by a position that he could not (psychologically) sustain.

Study this chart of the purchasing power of the dollar. On a trend basis, the chart shows that the dollar has been declining ever since 1939 or the era of the Great Depression. The inference is clear; the dollar is heading towards an eventual wipe-out. Voltaire was probably correct when he wrote, "Paper money eventually goes down to its intrinsic value—zero." Yet, the fact is that **A LOT CAN HAPPEN** between now and the ultimate destruction of the dollar. So I maintain that no one should put all his money into gold, and then just sit for five, ten or twenty years—until the dollar is obliterated.

I have chosen the percentage figure of about 30% to 35% as a reasonable gold proportion of assets for my subscribers. I feel that 30% to 35% is sufficient, so that a rising trend in gold will produce excellent profits while any sharp declines or corrections will not scare subscribers out of gold. Obviously, those



percentages can be adjusted for the personality and needs of each individual subscriber, and I of course do not expect a New York businessman to hold the same percentage of gold as a widower from Galveston.

Question: Russell, your chart of the collapsing dollar frightens me. But what can I do about this disaster?

Answer: When a nation's currency is being destroyed, everyone becomes a loser, and the man who loses least is the one who comes out best. I've said this before, but I'll repeat it: we will need three things to survive financially in the period ahead: (1) a cold, unemotional approach to investments, (2) timing, and (3) patience.

Question: Great, I'm with you. But where does that leave me now?

Answer: This is how I see the situation at this time. I believe the risk/reward in holding stocks is poor now. I think bonds are possibly becoming interesting, but we will need *more time* to know where we are in the bond markets. The one clear phenomenon, at present, is that my gold/stock ratio is continuing to move up IN FAVOR OF GOLD. In Letter 738 I included a chart showing the ratio of gold to the broad NYSE Composite (this composite includes all the common stocks on the Big Board). Many subscribers were surprised to note that the gold/stock ratio (gold divided by the value of the NYSE Composite) has been moving up since late-1976—in favor of gold as an investment.

I have placed those same ratios on two moving averages, a 3-week moving average and an 8-week moving average. As you can see on the accompanying chart, the 3-week MA is not only advancing above the 8-week MA but the 3-week MA is now at a new high. This means that gold's relative strength is continuing

to improve against the stock market. It also tells us that gold RS is now at its highest level since this bull move in gold began in August, 1976. Next, it tells us that our assets should have been, and should now be, in gold rather than stocks. Finally, the fact that the 3-week MA is above the 8-week MA tells us that the relative strength of gold against stocks is still in a rising trend.

Now, I don't pretend to have a crystal ball. I'm a student of market action, and I hope to be right more often than I am wrong. Based on my experience, I would say that the current gold move should turn speculative and highly charged (emotionally) before it is over. It may not work out that way; gold may simply fizzle, but the odds say that gold should (in due time) become emotional on the upside. The great Dow Theorist, E. George Schaefer was fond of saying that "There's no fever like gold fever," and I agree with him.

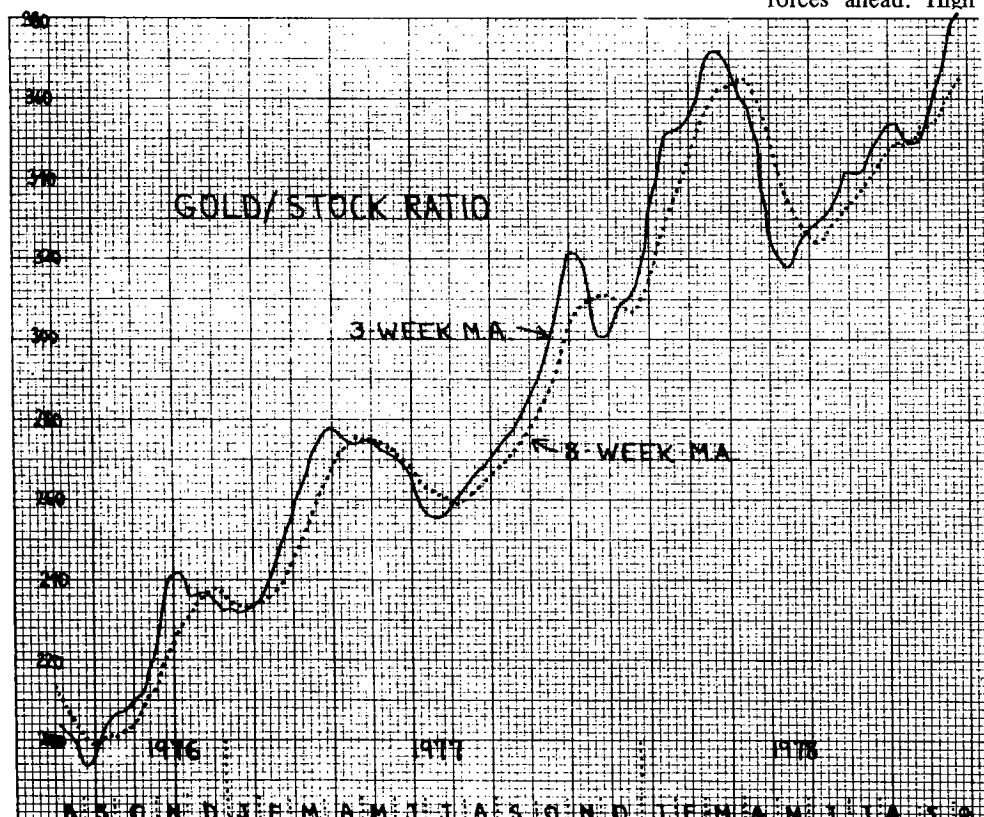
We have been watching gold plod upwards, back and fill, push higher, sink, work its way over 200—all the while fighting the proverbial "wall of worry." But somewhere along the line gold should break loose from its moorings and start to boil. I don't know whether this will come from a shortage of gold coins, a news event, war in the Mid-East, or simply through fear of inflation—but it should come. At that time it will be time to take some profits, and I will not be adverse to doing so. Until then, the gold/stock ratio says that gold is the place to be.

Question: The bank discount rate is now ½% above its previous highest level in history. How will this affect gold?

Answer: Compound interest is the enemy of gold (since gold provides no return), but inflation is a plus for gold. Rising interest rates are a function (directly connected with) inflation. Thus, we have two opposing forces acting on gold. My own belief is that despite the Fed's seeming new onslaught against inflation, gold will, in general, tend to discount still higher inflationary forces ahead. High interest rates are only temporary, and an

8½% discount rate is not going to kill an inflationary trend that has been in force for decades. Only a balanced Federal budget will do that, plus a willingness to accept some contraction in the economy. This Administration's intentions, as far as I can see, are far, far away from either cutting NET Federal spending or accepting recession and higher unemployment.

The great bulk of US spending is now in transfer payments such as Social Security, HUD, HEW and so forth. Of the \$135 billion new military budget, 60% goes to salaries, pensions, inflation, services and only 30% goes to actual hardware! An astounding \$60 billion this year will go towards servicing the national debt. Cutting back Federal spending will take a resolve and a willingness to accept pain that I do not see in the nation or the Administration at this time. Thus, more inflation and higher interest rates both lie ahead.



LATE NOTES: The gold stocks (all of them, N.American and S.African) have dropped back sharply, even though the price of gold is down only slightly from its record high of 227.20 of last week. I have not recommended gold shares, and I have purposely not recommended them because I feel that the buyer of gold is now a very different "animal" than the buyer of gold shares. When you buy gold, you are "going with the central banks" and you are going with the "big boys." You are, in effect, buying survival—survival from inflation, survival from potential chaos, survival from the dollar. But when you buy a gold share you are buying a piece of an enterprise; you are buying potential (1) mining problems, (2) labor strikes, (3) rising costs, (4) political intervention, (5) racial problems, etc.

Thus, I continue to recommend gold itself rather than the shares (veteran subscribers know that for years up to 1974 I recommended the shares).

As of early this week (Oct. 16) my gold stock average has violated its August low of 33, but bullion has not confirmed by a wide margin. This downside non-confirmation, if it holds, should be resolved by new highs for bullion in due time.

* * *

My chart of gold and the three moving averages shows that gold may have gotten a bit ahead of itself on the latest rally. With the 4-week moving average of gold at 219, I would consider it excellent action if bullion could hold above 219 on any decline and consolidation from this area.

NEXT MAILING: November 1

